

Rapid economic growth and progress in human development have raised the possibility that the region with the greatest number of poor people could end mass poverty within a generation. Following domestic reforms and external assistance, gross domestic product (GDP) in South Asia has grown an average of nearly 6 percent a year for the past decade. Growth in the two largest countries, India and Pakistan, reached 7 percent in the past two years. In 2006, GDP in South Asia is estimated to have expanded at the very rapid pace of 8.2 percent.

With growth has come an impressive reduction in poverty. During the 1990s, poverty rates fell 7 percent in India, 9 percent in Bangladesh, and 11 percent in Nepal. Pakistan's poverty rate declined 5 percent in the first half of this decade. But to end poverty in a generation, South Asian economies must sustain an economic growth rate of 8–10 percent a year.

South Asia still has some of the worst human deprivation in the world. Levels of child malnutrition in India are nearly twice those in Africa. In Pakistan, one child in ten dies before the age of five, and only one in three completes primary

school. About one person in five in South Asia lacks access to water services, and some two-thirds lack access to sanitation.

But perhaps the most fundamental challenge is the need for improved governance. Several South Asian countries suffer from endemic corruption, with Bangladesh scoring near the bottom of Transparency International's Corruption Perceptions Index for the past six years. Weak governance and corruption—reflected, for example, in high levels of teacher absenteeism or rampant procurement problems at power plants—are key bottlenecks to human development and growth. Confrontational and often personality-based politics plague Bangladesh, Sri Lanka, and some Indian states, sometimes to the point of political violence. In parts of Afghanistan, Nepal, and Pakistan, conflict between state and nonstate actors plays out regularly.

The World Bank is working closely with partner countries to strengthen their core governance processes and institutions at the country level as well as to strengthen governance and anticorruption at the sector level; it is also strengthening risk mitigation in Bank-financed operations.

SOUTH ASIA FAST FACTS

Total population:	1.5 billion
Population growth:	1.5%
Life expectancy at birth:	63 years
Infant mortality per 1,000 births:	62
Female youth literacy:	63%
2006 GNI per capita:	\$766
Number of people living with HIV/AIDS:	6.2 million

TOTAL FISCAL 2007

New Commitments
IBRD \$1,600 million
IDA \$4,032 million

TOTAL FISCAL 2007

Disbursements
IBRD \$1,206 million
IDA \$3,043 million

Portfolio of projects under implementation as of June 30, 2007: \$20.7 billion

Note: Life expectancy at birth, infant mortality rate per 1,000 live births, and female youth literacy are for 2005; HIV/AIDS data are from the May UNAIDS 2006 Report on the Global AIDS Epidemic; other indicators are for 2006 from the World Development Indicators Database.

COUNTRIES ELIGIBLE FOR WORLD BANK BORROWING

Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
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While all the country strategies in the region cover governance and anticorruption to varying degrees, the strategy for Bangladesh stands out in making governance a core, cross-cutting theme that is integrated into all of the Bank's work in the country.

Although the challenges facing South Asia can seem daunting, the region's ability to grow and to reduce poverty suggests that they can be overcome, and the World Bank is well equipped to support that effort (see box 2.3).

WORLD BANK ASSISTANCE

The Bank approved nearly \$5.6 billion for South Asia in fiscal 2007, with \$1.6 billion in loans from IBRD and \$4 billion in IDA commitments, including \$445 million in grants.

A new interim strategy note for Nepal was discussed by the Bank's Executive Directors in fiscal 2007. The strategy emphasizes flexibility in helping Nepalis respond to historic opportunities in the transition to peace.

During fiscal 2007, the Bank continued its support for rural development, education, and health. Girls, members of formerly low-caste groups, and ethnic minorities in Nepal will benefit from a \$60 million grant for the Second Higher Education Project. The Bank also supported India's health sector with \$672 million to improve reproductive and child health services, reduce mortality and morbidity from tuberculosis, and increase the use of essential health services in Karnataka. It also continued its support of India's efforts to curb the spread of HIV/AIDS with a \$250 million credit for the Third National HIV/AIDS Control Project. The project will assist the government in increasing prevention, care, and treatment interventions nationwide.

In conflict-ridden Sri Lanka, a new project will meet housing needs, provide safe drinking water and sanitation, improve drainage facilities, and regularize land titles for the 60,000 internally displaced people currently living in refugee camps. In Pakistan, a recently approved Bank project aims to improve the security of land tenure, which will increase access to land and credit, especially for the poor, whose rights remain largely unprotected.

Besides lending, a strong component of the Bank's strategy is its analytic and advisory work. A recent report on Afghanistan's poppy economy concluded that actions against

drug traffickers have been marred by corruption and have failed to prevent the consolidation of the drug industry around fewer, more powerful, and politically connected actors. The Bank also undertook a regional HIV/AIDS study, a report on progress toward reaching the MDGs in Bangladesh, and a study on access to finance in Nepal.

BUILDING THE CLIMATE FOR INVESTMENT

The 2006 edition of *Doing Business in South Asia* covered all eight countries in the region as well as major cities in Bangladesh, India, and Pakistan. Although doing business became easier in the region's two largest countries—India and Pakistan—no other South Asian economies improved business regulations in 2005–06, causing the region to place last in the pace of global reforms.

The World Bank is working to address deficiencies in the region's investment climate, such as weak infrastructure, excessive regulation, and corruption. In Afghanistan, the Bank provided a \$25 million grant to improve the country's investment climate and infrastructure facilities in key sectors such as electricity, water, and telecommunications. In Bangladesh, the Bank gave a \$40 million credit to support the government's plans to transform Bangladesh Railway into a well-managed, customer-focused organization.

Progress continues in reforming infrastructure policies in South Asia. India is reforming its port and road systems using \$8 billion in public-private partnerships. The Bank supported this agenda in Punjab with a \$250 million loan for the rehabilitation and expansion of the road network.

FOSTERING PARTICIPATION IN DEVELOPMENT

The World Bank's approach to participation in South Asia is to empower community groups to make development decisions, direct resources, and play a role in projects that affect them. The emphasis is on equity and the inclusion of poorer regions, communities, and households in development projects.

Under the Pakistan Poverty Alleviation Fund, some 10,000 community infrastructure projects have been completed that touch the lives of more than 2.5 million people in about 5,000 villages. More than half of these projects provide safe drinking water or access to sanitation. In fiscal 2007, the fund received additional financing of \$138 million to address housing

FIGURE 2.5

SOUTH ASIA

IBRD AND IDA LENDING BY THEME | FISCAL 2007

SHARE OF TOTAL OF \$5.6 BILLION

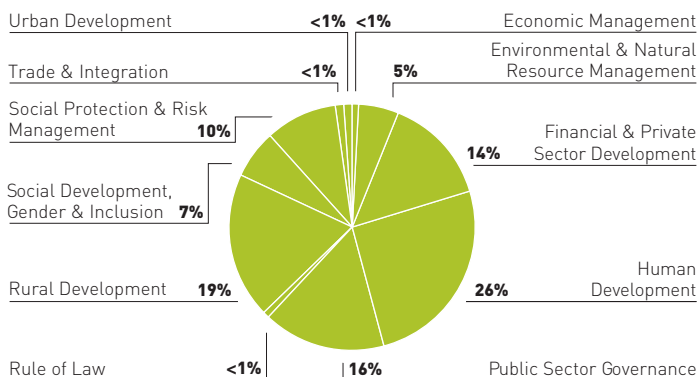
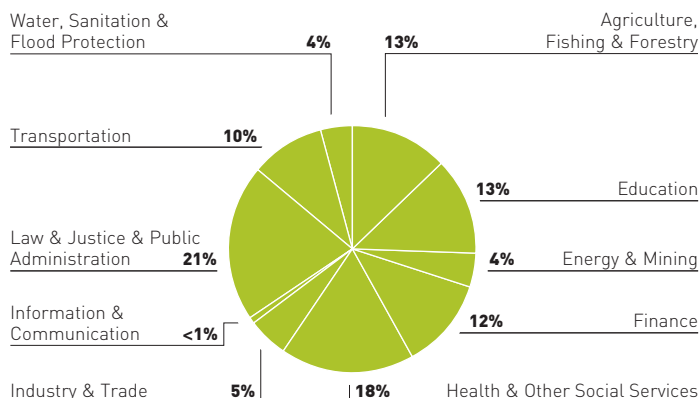


FIGURE 2.6

SOUTH ASIA

IBRD AND IDA LENDING BY SECTOR | FISCAL 2007

SHARE OF TOTAL OF \$5.6 BILLION



reconstruction in areas devastated by the earthquake that struck on October 8, 2005.

In Afghanistan, the Bank approved a \$120 million grant for the Second National Solidarity Program, a community-led reconstruction and rural infrastructure initiative that has reached about 14 million rural people—74 percent of Afghanistan’s rural population—since its inception in 2002. More than 9,000 community development committees have received block grants to fund about 17,000 projects in water supply and sanitation, irrigation, rural energy, livelihoods, and transport infrastructure at the village level.

In India and Pakistan, the Bank is supporting livelihood programs that provide microfinance and self-employment

opportunities to millions of poor women. In Andhra Pradesh, India, Bank-funded projects have helped some 8 million women build incomes, improve living standards, and even gain political influence by banding together in some 630,000 self-help groups. A similar operation—the \$63 million Bihar Rural Livelihoods Project—was approved in fiscal 2007. The project is designed to support the social and economic empowerment of rural poor people in the state and is expected to directly benefit about 2.9 million people. (See www.worldbank.org/sar.)

BOX 2.3

THE PROMISE OF REGIONAL INTEGRATION

South Asia is sitting on a rich potential source of growth: regional integration. Increasing integration within the least integrated region in the world could yield huge benefits for its people. Annual trade between India and Pakistan, currently estimated at \$1 billion, could potentially reach \$9 billion. Unfortunately, progress on trade integration within South Asia has been slow. While it continues to make the case for more open trade in goods and services within the subcontinent, especially with private sector entities such as national federations of chambers of commerce and industry, the World Bank is also focusing on regional cooperation in energy and water, where the win-win benefits are likely to be even higher.

The Independent Evaluation Group’s review of the Bank’s regional programs around the world found that they have the

potential to deliver big development results, yet account for less than 1 percent of total lending and are not closely linked to country programs. The IEG noted that the Bank has been effective in fostering country interest in regional programs and in mobilizing resources, but has been less so in helping countries resolve conflicting interests and plan for the sustainability of programs after external support ends. A more strategic approach will help countries identify the regional approaches of greatest promise and will strengthen the international aid architecture in support of multicountry efforts. Greater support for these programs, coupled with the application of the lessons of experience, could have a strong development impact.

TABLE 2.3

WORLD BANK LENDING TO BORROWERS IN SOUTH ASIA BY THEME AND SECTOR | FISCAL 2002–2007
 MILLIONS OF DOLLARS

THEME	2002	2003	2004	2005	2006	2007
Economic Management	232.5	123.5	7.7	87.5	56.6	11.2
Environmental and Natural Resource Management	295.2	94.2	94.8	433.9	93.0	309.7
Financial and Private Sector Development	381.6	689.1	689.9	923.0	550.4	809.9
Human Development	30.2	546.9	760.6	1,041.6	391.7	1,476.3
Public Sector Governance	678.0	467.3	669.8	639.5	597.9	916.6
Rule of Law	59.3	12.5	2.9	10.5	7.2	50.4
Rural Development	417.2	403.7	314.1	1,132.5	568.6	1,095.5
Social Development, Gender, and Inclusion	414.2	197.3	642.8	265.3	366.9	372.5
Social Protection and Risk Management	164.0	184.4	98.6	337.0	472.3	550.5
Trade and Integration	70.0	197.3	52.7	63.7	138.8	31.3
Urban Development	766.2	2.6	87.8	59.0	553.7	7.7
Theme Total	3,508.4	2,918.7	3,421.6	4,993.3	3,797.2	5,631.6
SECTOR						
Agriculture, Fishing, and Forestry	328.1	212.6	251.9	940.8	368.9	733.6
Education	95.9	364.6	665.8	286.4	377.2	724.7
Energy and Mining	504.8	150.6	130.8	83.6	483.0	243.7
Finance	310.0	185.8	331.4	461.8	73.0	678.1
Health and Other Social Services	278.7	369.0	334.6	493.2	195.9	1,006.2
Industry and Trade	443.1	144.9	46.1	485.2	306.5	292.9
Information and Communication	12.4	11.5	16.9	91.9	50.0	2.8
Law and Justice and Public Administration	632.5	372.3	925.5	885.7	1,101.4	1,165.8
Transportation	758.1	1,067.6	444.8	1,181.0	520.1	559.9
Water, Sanitation, and Flood Protection	144.9	40.0	273.7	83.7	321.3	223.9
Sector Total	3,508.4	2,918.7	3,421.6	4,993.3	3,797.2	5,631.6
Of which IBRD	893.0	836.0	439.5	2,095.9	1,231.0	1,599.5
Of which IDA	2,615.4	2,082.7	2,982.1	2,897.4	2,566.2	4,032.1

Note: Effective fiscal 2005, lending includes guarantees and guarantee facilities.